Alberta

BUDGET2009

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# Second Quarter Fiscal Update 2009–2010

**Government of Alberta**

November 2009

## UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of two parts – the updated 2009–10 forecast for the entire fiscal year and the actual results for the first six months of the fiscal year (April 1 to September 30, 2009).

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## 2009–10 FORECAST

# HIGHLIGHTS

**Deficit.** Forecast at $4.3 billion, an improvement of $390 million from budget and $2.6 billion from first quarter. The deficit is offset by a transfer from the Sustainability Fund.

**Revenue.** Forecast at $32.6 billion, an increase of $965 million from budget and $3.1 billion from first quarter. Increased conventional oil and oil sands royalties, from higher oil and bitumen prices, strong investment income, and higher corporate income tax revenue, are partially offset by lower natural gas royalties, from weaker prices, and lower personal income tax and gaming and liquor revenue. The higher US-Cdn dollar exchange rate also lowers revenue.

**Expense.** Forecast at $37 billion, a net increase of $575 million from budget and $503 million from first quarter, mainly for disaster/emergency assistance and capital grants related to federal stimulus transfers. Increased operating expense, primarily for higher caseloads in income supports programs, is offset by an additional $215 million in value review savings.

**Sustainability Fund.** Forecast assets at March 31, 2010 of $13.3 billion, $2.9 billion higher than budget estimate and $4 billion higher than first quarter forecast. The higher balance is due primarily to the lower forecast deficit, $1.5 billion in cash from 2008-09 fourth quarter results transferred in 2009-10 and lower capital cash requirements.

## FISCAL SUMMARY[a]

*(millions of dollars)*

| | | 2009-10 | | | |
|---|---|---|---|---|---|
| | | | 2nd Quarter | Change from | 1st |
| | | Budget | Forecast | Budget | Quarter |
| 1 | **Revenue** | 31,661 | **32,626** | 965 | 3,056 |
| 2 | **Expense**[b] | | | | |
| 3 | Program expense | | | | |
| 4 | Operating expense (net of value review savings) | 31,244 | **31,227** | (17) | 150 |
| 5 | Capital grants | 4,152 | **4,254** | 102 | (2) |
| 6 | Disaster/emergency assistance | - | **454** | 454 | 319 |
| 7 | Capital amortization and nominal sum disposals | 774 | **787** | 13 | 13 |
| 8 | Debt servicing costs | 205 | **228** | 23 | 23 |
| 9 | **Total Expense** | 36,375 | **36,950** | 575 | 503 |
| 10 | Surplus / (Deficit) | (4,714) | **(4,324)** | 390 | 2,553 |
| 11 | Sustainability Fund transfer to offset deficit | 4,714 | **4,324** | (390) | (2,553) |

[a] Subject to the *Fiscal Responsibility Act*. Does not include changes in results of Crown-controlled SUCH sector organizations or in pension liabilities.

[b] Capital Investment is not included in expense. In 2009-10, capital investment is forecast at: 3,027 2,697 (330) (726)

## ALBERTA SUSTAINABILITY FUND

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter | Change from | 1st |
| | Budget | Forecast | Budget | Quarter |
| **Assets at Start of Year** | 16,822 | **16,822** | - | - |
| 2008-09 fourth quarter results | - | **1,503** | 1,503 | - |
| Transfer to offset deficit | (4,714) | **(4,324)** | 390 | 2,553 |
| Cash adjustments | | | | |
| Capital cash adjustments | (847) | **(13)** | 834 | 962 |
| Retained income of funds and agencies | (223) | **(123)** | 100 | 376 |
| Other cash adjustments | (679) | **(587)** | 92 | 72 |
| **Assets at End of Year** | 10,359 | **13,278** | 2,919 | 3,963 |

# REVENUE

## NON - RENEWABLE RESOURCE REVENUE

**Non-renewable resource revenue** is forecast at $5.6 billion, $346 million lower than budget but $1.7 billion higher than first quarter: decrease from budget is mainly from lower natural gas prices; increase from first quarter is mainly from higher oil and bitumen prices.

The higher-than-expected US-Cdn dollar exchange rate, now estimated to average 91 US¢/Cdn$, 7.5¢ higher than budget, has reduced resource revenue.

**Natural gas royalties** are forecast at $1.9 billion, $1.7 billion lower than budget but $86 million higher than first quarter. The Alberta Reference Price, used to calculate natural gas royalties, is forecast to average Cdn$3.25/gigajoule (GJ) for the fiscal year, $2.25 lower than budget and 50 cents lower than first quarter.

The outlook for natural gas prices has deteriorated as a result of growing US unconventional natural gas production and the impact of the recession on demand. Prices have averaged Cdn$2.94/GJ between April and September and are expected to average $3.56/GJ for the remaining six months of the fiscal year.

**Total oil royalties** are forecast at $3.6 billion, $1.3 billion higher than budget and $1.6 billion higher than first quarter. Oil prices are forecast to average US$67.51/barrel (bbl) for the fiscal year, $12.01 higher than budget and $6.51 higher than first quarter. This is based on an April to October average of US$66/bbl, and a forecast average of $70 for the remaining five months of the fiscal year.

Bitumen prices are also about 50% higher than originally forecast, caused by lower global heavy oil supply and increased demand from expanded US upgrading capacity. The higher bitumen price more than offsets higher-than-expected oilsands operator costs and lower production.

**Revenue from bonuses and sales** of Crown leases is forecast at $443 million, $188 million lower than the budget estimate, due to a lower number of hectares being requested and sold, and lower prices per hectare.

**Drilling stimulus initiatives** are forecast at $584 million, down $258 million from budget, due to lower activity and lower natural gas prices.

## TAX REVENUE

**Personal income tax** revenue is forecast at $8.1 billion, $495 million lower than budget but $37 million higher than first quarter. The decrease from budget is mainly due to a prior years' adjustment of $308 million. Updated 2008 assessment data indicates the deterioration in financial markets last year lowered taxable capital gains, and the change is booked against this year's revenue. This also lowers the 2009 and 2010 forecasts.

**Corporate income tax** revenue is forecast at $3 billion, $553 million higher than budget and first quarter forecasts. This represents a 29% decline in corporate income tax revenue from the very high levels of 2008-09.

**Other tax** revenue is forecast at $3.7 billion, $78 million lower than budget. Declines of $35 million in tobacco tax from lower consumption, $36 million in freehold mineral rights tax mainly from lower natural gas prices, and $13 million in the tourism levy from lower hotel room rates and stays, are partially offset by a $6 million increase in insurance taxes from updated prior year premium data.

## TRANSFERS FROM GOVERNMENT OF CANADA

Federal transfers are forecast at $4.7 billion, $49 million higher than the budget estimate. Health and social transfers have increased by $19 million each due to prior years' adjustments and revised population numbers respectively. Agriculture transfers are $39 million lower than budget due to AgriInvest delivery changes and lower crop insurance premiums, partly offset by Growing Forward Agreement increases. Other federal transfers are $50 million higher than budget but $50 million lower than first quarter. Increased stimulus funding is partly offset by re-profiling of about $175 million in capital stimulus transfers into future years.

## INVESTMENT INCOME

Investment income is forecast at $3.4 billion, an increase of $1.6 billion from budget and $873 million from first quarter. Heritage and endowment fund income is $1.5 billion higher due to strong equity markets, while Sustainability Fund income has increased by $130 million mainly because of the higher projected balance.

## OTHER REVENUE

Revenue from other sources is forecast at $4.2 billion, $351 million lower than the budget estimate:

- $150 million decrease in liquor revenue;
- $166 million decrease in gaming revenue;
- $52 million decrease in premiums, fees and licences;
- A net $17 million increase, primarily from Alberta Livestock and Meat Agency industry funding and Land Stewardship Initiative land sales, partly offset by lower ATB net income.

# REVENUE

*(millions of dollars)*

| | 2009-10 | | | | |
|---|---|---|---|---|---|
| | | 2nd Quarter | Change from | 1st Quarter | Main Reasons for Change from Budget |
| | Budget | Forecast | Budget | | |
| **Income Taxes** | | | | | |
| Personal income tax | 8,559 | **8,064** | (495) | 37 | Lower-than-expected prior years' assessments |
| Corporate income tax | 2,447 | **3,000** | 553 | 553 | Higher-than-expected cash receipts |
| | 11,006 | **11,064** | 58 | 590 | |
| **Other Taxes** | | | | | |
| Education property tax | 1,532 | **1,532** | - | - | |
| Tobacco tax | 915 | **880** | (35) | - | Lower-than-expected consumption |
| Fuel tax | 725 | **725** | - | 20 | |
| Freehold mineral rights tax | 200 | **164** | (36) | (3) | Lower natural gas prices |
| Insurance taxes | 298 | **304** | 6 | 6 | Updated 2008-09 cash collections |
| Tourism levy | 76 | **63** | (13) | (10) | Lower hotel rates and fewer stays |
| | 3,746 | **3,668** | (78) | 13 | |
| **Non-Renewable Resource Revenue** | | | | | |
| Natural gas and by-products royalty | 3,687 | **1,947** | (1,740) | 86 | Lower natural gas prices |
| Crude oil royalty | 1,249 | **1,607** | 358 | 327 | Higher oil prices |
| Synthetic crude oil and bitumen royalty | 1,008 | **1,955** | 947 | 1,311 | Higher bitumen prices |
| Coal royalty | 27 | **35** | 8 | 8 | Higher coal prices |
| Bonuses and sales of Crown leases | 631 | **443** | (188) | (35) | Fewer hectares sold / lower prices per hectare |
| Rentals and fees | 143 | **154** | 11 | 3 | Higher lease renewal rates |
| Drilling stimulus initiatives | (842) | **(584)** | 258 | 6 | Lower-than-expected prices and drilling activity |
| | 5,903 | **5,557** | (346) | 1,706 | |
| **Transfers from Government of Canada** | | | | | |
| Health transfers | 2,037 | **2,056** | 19 | 19 | Prior years' adjustments |
| Canada Social Transfer | 1,170 | **1,189** | 19 | 19 | Higher population share |
| Agriculture support programs | 374 | **335** | (39) | (12) | AgriInvest program delivery change |
| Other | 1,090 | **1,140** | 50 | (50) | Various federal stimulus transfers |
| | 4,671 | **4,720** | 49 | (24) | |
| **Net Income from Commercial Operations** | | | | | |
| Alberta Gaming and Liquor Commission: | | | | | |
| Gaming and lottery revenue | 1,492 | **1,326** | (166) | (82) | Lower-than-expected activity |
| Liquor revenue | 880 | **730** | (150) | 30 | Rescinding of liquor mark-ups increase |
| Alberta Treasury Branches | 148 | **129** | (19) | (19) | Lower interest income |
| Other | 7 | **7** | - | - | |
| | 2,527 | **2,192** | (335) | (71) | |
| **Investment Income** | | | | | |
| Alberta Heritage Savings Trust Fund | 778 | **2,086** | 1,308 | 679 | Stronger-than-expected equity markets |
| Endowment Funds: | | | | | |
| Medical Research | 51 | **161** | 110 | 58 | Stronger-than-expected equity markets |
| Science and Engineering Research | 29 | **87** | 58 | 31 | Stronger-than-expected equity markets |
| Scholarship | 20 | **86** | 66 | 33 | Stronger-than-expected equity markets |
| Alberta Capital Finance Authority | 294 | **294** | - | - | |
| Agriculture Financial Services Corporation | 108 | **98** | (10) | (10) | Lower interest rates |
| Sustainability Fund | 345 | **475** | 130 | 100 | Higher balance and returns |
| Debt Retirement Account | 45 | **50** | 5 | - | Higher returns |
| Other | 129 | **95** | (34) | (18) | Lower balances and interest rates |
| | 1,799 | **3,432** | 1,633 | 873 | |
| **Premiums, Fees and Licences** | | | | | |
| Motor vehicle licences | 366 | **360** | (6) | 2 | Lower vehicle registrations |
| Crop and hail insurance premiums | 251 | **229** | (22) | (22) | Reduction in insurance participation |
| Energy Resources Conservation Board levies | 111 | **111** | - | - | |
| Timber rentals and fees | 40 | **34** | (6) | (6) | Lower volumes/mountain pine beetle infestations |
| Land titles | 62 | **58** | (4) | (2) | Lower housing activity |
| Other | 326 | **312** | (14) | (6) | Lower fees from land access/apprenticeship program |
| | 1,156 | **1,104** | (52) | (34) | |
| **Other** | | | | | |
| Refunds of expense | 111 | **121** | 10 | 9 | Miscellaneous changes |
| Climate Change and Emissions Management | 95 | **95** | - | - | |
| Fines and penalties | 113 | **113** | - | - | |
| Miscellaneous | 534 | **560** | 26 | (6) | ALMA industry funding/Land Stewardship initiatives |
| | 853 | **889** | 36 | 3 | |
| **Total Revenue** | 31,661 | **32,626** | 965 | 3,056 | |

# EXPENSE

## TOTAL EXPENSE

Total expense has increased by $575 million from the budget estimate and by $503 million from first quarter. Changes from budget consist of:

- $454 million increase in disaster/emergency assistance;
- $102 million net increase in capital grants;
- $17 million net decrease in operating expense ($215 million decrease for additional value review savings, less $40 million net increase in dedicated revenue/expense and $158 million in other increases);
- $36 million increase in amortization/nominal sum disposals and debt servicing costs.

**Disaster/emergency assistance** – $454 million increase from budget consisting of $285 million in agriculture disaster support, $130 million for forest fire-fighting costs, $25 million to combat mountain pine beetle infestations and $14 million for municipal disaster recovery and wildfire assistance programs.

**Capital grants** – $102 million net increase, mainly for affordable housing, post-secondary facilities, municipal transportation and water management infrastructure, partially offset by re-profiling of grants for health facilities, schools and carbon capture and storage.

**Debt servicing costs/amortization** – $36 million increase. Debt servicing costs are $23 million higher due to increased borrowing, primarily to repay $1.2 billion owed by the pre-1992 Teachers' Pension Plan (TPP) to the post-1992 TPP. This reduces unfunded pension liabilities by an equivalent amount. Amortization/nominal sum disposals expense is $13 million higher mainly for $10 million in vaccine consumption.

## MINISTRY EXPENSE CHANGES

**Advanced Education and Technology** – $176 million increase. Increases of $131 million for the Centennial Centre for Interdisciplinary Science and $98 million in federal funding supporting post secondary infrastructure, are partly offset by $39 million in value review savings and $14 million in other decreases.

**Agriculture and Rural Development** – $276 million increase, consisting of a $285 million increase in industry disaster support, prompted by poor early season weather conditions and declines in commodity prices, offset by $5 million in value review savings and $4 million in other net decreases.

**Culture and Community Spirit** – $10 million increase, consisting of $13 million for the Canada Sports Hall of Fame less $3 million in value review savings.

**Education** – $124 million decrease, comprising $80 million in value review savings and re-profiling $44 million in school projects into future years.

**Employment and Immigration** – $175 million increase. $138 million for higher caseloads and costs per case of Income Supports and Health Benefits programs and $50 million for federally-funded skills and training are offset by $13 million in value review savings.

**Energy** – $97 million decrease comprising re-scheduling $100 million in carbon capture and storage capital grants into future years, $4 million in value review savings, a $3 million reduction in expense and revenue of the Alberta Utilities Commission (AUC), and an increase of $10 million to cancel an exploration lease and for AUC amortization.

**Health and Wellness** – $237 million decrease reflecting $188 million in value review savings and a $60 million reduction in capital grants, offset by a net increase of $11 million mainly for consumption of vaccines.

**Housing and Urban Affairs** – $55 million increase comprising $59 million in capital grants mainly for affordable housing, offset by federal funding, less decreases of $4 million mainly in value review savings.

**Municipal Affairs** – $16 million increase consisting of $14 million in municipal wildfire and disaster assistance, $5 million in other increases and $3 million in value review savings.

**Sustainable Resource Development** – $159 million increase. $130 million for forest fire-fighting costs and $35 million to combat mountain pine beetle infestations are partly offset by $6 million in value review savings and other net decreases.

**Transportation** – $195 million increase. Increases of $91 million for federal stimulus projects and accelerated municipal grants, $75 million for the Alberta Municipal Infrastructure program and $47 million for Fort McMurray projects, are partly offset by decreases of $10 million for re-profiling GreenTRIP projects to future years and $8 million in value review savings.

**Treasury Board** – $179 million decrease reflecting transferring $75 million of funds set aside to match federal stimulus initiatives to Alberta Transportation and Culture and Community Spirit, $100 million in federal stimulus funds re-profiled to future years, $3 million in capital planning funds transferred for re-engineering strategies and $1 million in value review savings.

**Other Ministries** – $88 million decrease including $81 million in value review savings.

## EXPENSE SUMMARY

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter | Change from | |
| | Budget | Forecast | Budget | 1st Quarter |
| **Program Expense** | | | | |
| Operating expense [a] | 31,459 | **31,617** | 158 | 583 |
| Dedicated revenue / operating expense net increases [b] | - | **40** | 40 | (3) |
| Value review savings | (215) | **(430)** | (215) | (430) |
| **Net operating expense** | 31,244 | **31,227** | (17) | 150 |
| Capital grants | 4,152 | **4,254** | 102 | (2) |
| Disaster/emergency assistance | - | **454** | 454 | 319 |
| Capital amortization and nominal sum disposals | 774 | **787** | 13 | 13 |
| **Total Program Expense** | 36,170 | **36,722** | 552 | 480 |
| **Debt Servicing Costs** | 205 | **228** | 23 | 23 |
| **Total Expense** | 36,375 | **36,950** | 575 | 503 |

[a] Prior to dedicated revenue/operating expense net changes and value review savings.

[b] Dedicated revenue/operating expense changes – Advanced Education and Technology: $4 million net decrease, mainly in Marketing Apprenticeship; Agriculture and Rural Development: $10 million net decrease ($25 million decrease in federal agriculture transfers partly offset by $15 million increase in ALMA industry funding); Employment and Immigration: $51 million increase in federal funding for skills and training; Infrastructure: $5 million net decrease primarily due to lower Swan Hills Waste Treatment Centre revenue; Sustainable Resource Development: $9 million net increase, mainly federal funding to combat mountain pine beetle infestations; net decrease of $1 million in other ministries.

## EXPENSE BY MINISTRY

*(millions of dollars)*

| | | 2nd Quarter | Change from | 1st | |
|---|---|---|---|---|---|
| | Budget | Forecast | Budget | Quarter | Main Reasons for Change from Budget |
| **Program** | | | | | |
| Legislative Assembly | 95 | **95** | - | - | |
| Aboriginal Relations | 150 | **149** | (1) | (1) | Value review savings |
| Advanced Education and Technology | 3,143 | **3,319** | 176 | 176 | Capital grants |
| Agriculture and Rural Development | 1,139 | **1,415** | 276 | 289 | Disaster assistance |
| Children and Youth Services | 1,141 | **1,125** | (16) | (16) | Value review savings |
| Culture and Community Spirit | 309 | **319** | 10 | 9 | Canada Sports Hall of Fame |
| Education | 6,158 | **6,034** | (124) | (124) | Value review savings |
| Employment and Immigration | 1,011 | **1,186** | 175 | 125 | Income Supports and Health Benefits |
| Energy | 501 | **404** | (97) | (106) | Deferred capital grants |
| Environment | 348 | **345** | (3) | (3) | Value review savings |
| Executive Council | 36 | **35** | (1) | (1) | Value review savings |
| Finance and Enterprise | 1,283 | **1,275** | (8) | (7) | Securities Commission/value review savings |
| Health and Wellness | 12,935 | **12,698** | (237) | (239) | Value review savings |
| Housing and Urban Affairs | 554 | **609** | 55 | (3) | Affordable housing development |
| Infrastructure | 572 | **562** | (10) | (8) | Value review savings |
| International and Intergovernmental Relations | 26 | **26** | - | - | |
| Justice | 485 | **478** | (7) | (7) | Value review savings |
| Municipal Affairs | 592 | **608** | 16 | 11 | Disaster recovery and wildfire assistance |
| Seniors and Community Supports | 1,974 | **1,946** | (28) | (28) | Value review savings |
| Service Alberta | 298 | **297** | (1) | (2) | Value review savings |
| Solicitor General and Public Security | 627 | **616** | (11) | (13) | Value review savings |
| Sustainable Resource Development | 344 | **503** | 159 | 29 | Forest fires/mountain pine beetles |
| Tourism, Parks and Recreation | 193 | **191** | (2) | - | Value review savings |
| Transportation | 2,227 | **2,422** | 195 | 148 | Various federal stimulus projects |
| Treasury Board | 244 | **65** | (179) | (179) | Transfer of federal stimulus to other ministries |
| Value review savings | (215) | **-** | 215 | 430 | Increased value review savings |
| **Total Program Expense** | 36,170 | **36,722** | 552 | 480 | |
| **Debt Servicing Costs** | 205 | **228** | 23 | 23 | Increased borrowing |
| **Total Expense** | 36,375 | **36,950** | 575 | 503 | |

# CAPITAL PLAN

2009-10 Capital Plan spending, comprising capital grants and other infrastructure support, included in expense, and capital investment in government-owned assets, is forecast at $7 billion, $228 million lower than the budget estimate and $728 million less than first quarter. Major changes reflect project re-profiling and re-costing, and lapsing the unallocated provision.

**Municipal Infrastructure Support** – $1.7 billion, $173 million increase from budget. Increases of $91 million for federal stimulus projects and accelerated grants, $75 million for the Alberta Municipal Infrastructure program and $11 million for Fort McMurray housing development, are slightly offset by other net decreases of $4 million.

**Provincial Highway Network** – $1.9 billion, an increase of $63 million from budget, consisting of a net $261 million increase related to 2008-09 projects, $6 million for the intersection of Highways 63 and 69, and a net decrease of $204 million for project re-costing and re-profiling.

**Health Facilities and Equipment** – $312 million, a decrease of $57 million from budget. Decreases of $35 million for health information systems and $35 million for project re-costing and re-profiling are partly offset by an increase of $13 million for vaccine purchases and Capital for Emergent Projects.

**Post-secondary Facilities** – $708 million, up $218 million from budget. $131 million for the Centennial Center for Interdisciplinary Science and $98 million from the federal Knowledge Infrastructure program are offset by $11 million in project re-profiling.

**Schools** – $716 million, down $45 million from budget due mainly to re-profiling of the school P3 projects.

**Community Facilities** – $97 million, up $17 million from budget. The increase mainly reflects $13 million for the Canada Sports Hall of Fame and $4 million for parks infrastructure, primarily supported by federal stimulus transfers.

**Water and Wastewater Management** – $286 million, up $32 million from budget. An increase of $36 million for Fort McMurray development projects is partly offset by a $4 million decrease primarily related to re-classifying funds to the Municipal Infrastructure Support envelope.

**Housing** – $405 million, up $77 million from budget. Increases of $58 million for affordable housing supported by federal funding and $33 million for Fort McMurray projects are partially offset by a net $14 million re-profiled to future years.

**Government Facilities, Equipment and Other Capital** – $858 million, down $494 million from budget. Decreases of $420 million from project re-costing and re-profiling, $175 million from re-profiling and re-classifying of federal stimulus project funding to other envelopes, and $8 million in other net decreases, are partially offset by increases of $78 million from carried-over 2008-09 projects, $19 million for AIMCo relocation and information technology requirements and $12 million for land purchases.

**Unallocated Provision** – The $212 million unallocated provision is being lapsed.

## CAPITAL PLAN SUMMARY

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter | Change from | |
| | Budget | Forecast | Budget | 1st Quarter |
| Municipal infrastructure support | 1,491 | **1,664** | 173 | 158 |
| Provincial highway network | 1,842 | **1,905** | 63 | (204) |
| Health facilities and equipment | 369 | **312** | (57) | (59) |
| Post-secondary facilities | 490 | **708** | 218 | 218 |
| Schools | 761 | **716** | (45) | (45) |
| Community facilities | 80 | **97** | 17 | 17 |
| Water and wastewater management | 254 | **286** | 32 | - |
| Housing | 328 | **405** | 77 | (15) |
| Government facilities, equipment and other capital | 1,352 | **858** | (494) | (586) |
| Unallocated provision | 212 | - | (212) | (212) |
| **Total Capital Plan** | 7,179 | **6,951** | (228) | (728) |

# NET FINANCIAL AND CAPITAL ASSETS

**Net Assets** – Forecast at $37.4 billion at March 31, 2010, an increase of $135 million from the budget forecast but $5.3 billion lower than March 31, 2009. This includes forecast capital assets of $17.8 billion, $347 million lower than budget but $1.9 billion higher than March 31, 2009.

**Heritage Fund** – The forecast net book value of Heritage Fund external assets is $13.8 billion, unchanged from budget and the same as at March 31, 2009. No inflation-proofing is expected as inflation is forecast to be negative.

**Endowment and Other Funds** – Total assets are forecast at $3.3 billion, $194 million higher than the budget estimate and $117 million higher than March 31, 2009, due mainly to stronger-than-expected equity markets.

**Sustainability Fund** – Assets are forecast at $13.3 billion at March 31, 2010, $2.9 billion higher than budget estimate but $3.5 billion lower than March 31, 2009. Changes from March 31, 2009 include the $4.3 billion withdrawal to offset the deficit, $0.7 billion in various cash requirements, offset by the additional $1.5 billion in cash from 2008-09 fourth quarter results. (Details are provided on pages 1 and 9.)

**Pension Liabilities** – Forecast at $9.9 billion at March 31, 2010, $931 million lower than the budget estimate and $228 million lower than March 31, 2009. This reflects repayment of $1.2 billion owed from the pre-1992 Teachers' Pension Plan (TPP) to the post-1992 TPP, partly offset by a $255 million increase due to revised mortality rates and higher-than-expected recent COLA adjustments. The Province is borrowing for the debt repayment, increasing "other liabilities" by $1.2 billion.

## BALANCE SHEET

*(millions of dollars)*

| | at March 31 | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | | | |
| | | | 2nd Quarter | Change from | |
| | *Actual* | Budget [a] | Forecast | Budget | 2009 Actual |
| **Financial Assets** | | | | | |
| Heritage Fund equity | *13,838* | 13,838 | 13,838 | - | - |
| Self-supporting lending organizations | *9,235* | 9,994 | 10,276 | 282 | 1,041 |
| Alberta Sustainability Fund [b] | *16,822* | 10,359 | 13,278 | 2,919 | (3,544) |
| Endowment and other funds [c] | *3,208* | 3,131 | 3,325 | 194 | 117 |
| Equity in commercial enterprises | *2,346* | 2,562 | 2,466 | (96) | 120 |
| Debt Retirement Account | *1,175* | 1,107 | 1,107 | - | (68) |
| Other financial assets | *7,427* | 7,686 | 6,321 | (1,365) | (1,106) |
| **Total Financial Assets** | *54,051* | 48,677 | 50,611 | 1,934 | (3,440) |
| **Liabilities** | | | | | - |
| Accumulated debt | *1,160* | 1,092 | 1,092 | - | (68) |
| Pension liabilities [d] | *10,081* | 10,784 | 9,853 | (931) | (228) |
| Self-supporting lending organizations | *8,424* | 9,003 | 9,604 | 601 | 1,180 |
| Liabilities for capital projects | *880* | 2,626 | 2,803 | 177 | 1,923 |
| Other liabilities | *6,633* | 5,996 | 7,601 | 1,605 | 968 |
| **Total Liabilities** | *27,178* | 29,501 | 30,953 | 1,452 | 3,775 |
| **Net Financial Assets** | *26,873* | 19,176 | 19,658 | 482 | (7,215) |
| Capital Assets | *15,848* | 18,128 | 17,781 | (347) | 1,933 |
| **Net Assets** | *42,721* | 37,304 | 37,439 | 135 | (5,282) |
| Adjustment for pension liabilities | *10,081* | 10,784 | 9,853 | (931) | (228) |
| **Net Assets for Fiscal Policy Purposes** [e] | *52,802* | 48,088 | 47,292 | (796) | (5,510) |

[a] Budget numbers have been restated to reflect 2008-09 actual results.

[b] Under the amended *Fiscal Responsibility Act*, assets of the Capital Account were transferred into the Sustainability Fund for 2009-10, and amounts set aside for carbon capture and storage and GreenTRIP initiatives were retained in the Sustainability Fund.

[c] Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund, Alberta Enterprise Corporation and Climate Change and Emissions Management Fund.

[d] The Actual, Budget and the Quarterly forecast amounts were restated to include the government's portion of liabilities of the Local Authorities Pension Plan.

[e] Under the *Fiscal Responsibility Act*. Excludes pension liabilities and equity of Crown-controlled SUCH sector organizations.

## CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter | Change from | |
| | Budget | Forecast | Budget | 1st Quarter |
| Advanced Education and Technology | 484 | **702** | 218 | 218 |
| Agriculture and Rural Development | 42 | **44** | 2 | 2 |
| Children and Youth Services | 14 | **14** | - | - |
| Culture and Community Spirit | 45 | **57** | 12 | 12 |
| Education | 760 | **715** | (45) | (45) |
| Energy | 100 | - | (100) | (100) |
| Environment | 112 | **112** | - | - |
| Finance and Enterprise | 6 | **6** | - | - |
| Health and Wellness | 288 | **228** | (60) | (62) |
| Housing and Urban Affairs | 277 | **336** | 59 | 1 |
| Infrastructure | 67 | **60** | (7) | (4) |
| Municipal Affairs | 355 | **355** | - | - |
| Seniors and Community Supports | 51 | **51** | - | - |
| Tourism, Parks and Recreation | 9 | **9** | - | - |
| Transportation | 1,349 | **1,551** | 202 | 155 |
| Treasury Board | 193 | **14** | (179) | (179) |
| | 4,152 | **4,254** | 102 | (2) |

[a] Included in program expense. Includes support for project planning, and accommodation and facility preservation.

## CAPITAL INVESTMENT AND AMORTIZATION[a]

*(millions of dollars)*

| | 2009-10 Capital Investment | | | | 2009-10 Capital Amortization | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2nd Quarter | Change from | | | 2nd Quarter | Change from | |
| | Budget | Forecast | Budget | 1st Quarter | Budget | Forecast | Budget | 1st Quarter |
| Legislative Assembly | 2 | **2** | - | - | 1 | **1** | - | - |
| Advanced Education and Technology | 16 | **11** | (5) | (5) | 8 | **8** | - | - |
| Agriculture and Rural Development | 15 | **15** | - | - | 14 | **14** | - | - |
| Children and Youth Services | 2 | **2** | - | - | 4 | **4** | - | - |
| Culture and Community Spirit | 3 | **4** | 1 | - | 2 | **2** | - | - |
| Education | 1 | **5** | 4 | 4 | 1 | **1** | - | - |
| Employment and Immigration | 4 | **5** | 1 | - | 3 | **3** | - | - |
| Energy | 25 | **25** | - | - | 20 | **21** | 1 | 1 |
| Environment | 1 | **1** | - | - | 22 | **22** | - | - |
| Finance and Enterprise | 12 | **32** | 20 | 19 | 8 | **10** | 2 | 2 |
| Health and Wellness | 74 | **84** | 10 | 10 | 76 | **86** | 10 | 10 |
| Housing and Urban Affairs | - | **19** | 19 | (14) | 24 | **24** | - | - |
| Infrastructure | 599 | **355** | (244) | (320) | 77 | **78** | 1 | 1 |
| Justice | 4 | **4** | - | - | 8 | **8** | - | - |
| Municipal Affairs | 2 | **2** | - | - | 2 | **2** | - | - |
| Seniors and Community Supports | 1 | **1** | - | - | 1 | **1** | - | - |
| Service Alberta | 117 | **118** | 1 | - | 41 | **41** | - | - |
| Solicitor General and Public Security | 36 | **27** | (9) | (9) | 3 | **3** | - | - |
| Sustainable Resource Development | 26 | **41** | 15 | 2 | 15 | **15** | - | - |
| Tourism, Parks and Recreation | 18 | **24** | 6 | 3 | 13 | **13** | - | - |
| Transportation | 1,857 | **1,920** | 63 | (204) | 362 | **362** | - | - |
| Treasury Board | - | **-** | - | - | 1 | **1** | - | - |
| Unallocated provision | 212 | **-** | (212) | (212) | - | **-** | - | - |
| **Total** | 3,027 | **2,697** | (330) | (726) | 706 | **720** | 14 | 14 |

[a] Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventory.

## CASH ADJUSTMENTS

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter | Change from | |
| | Budget | Forecast | Budget | 1st Quarter |
| **Capital cash adjustments** | | | | |
| **Requirements** | | | | |
| Capital investment | (3,027) | **(2,697)** | 330 | 726 |
| Principal repayment for alternatively-financed projects | (7) | **(7)** | - | - |
| Total requirements | (3,034) | **(2,704)** | 330 | 726 |
| **Sources** | | | | |
| Capital amortization | 706 | **720** | 14 | 14 |
| Net book value of capital asset disposals | 41 | **41** | - | - |
| Alternatively-financed capital investment | 340 | **294** | (46) | - |
| Alternatively-financed capital grants | - | **245** | 245 | (69) |
| Direct borrowing | 1,100 | **1,391** | 291 | 291 |
| Total sources | 2,187 | **2,691** | 504 | 236 |
| **Total capital cash adjustments** | (847) | **(13)** | 834 | 962 |
| **Other cash adjustments** | | | | |
| Energy royalties | (635) | **(496)** | 139 | 122 |
| Student loans | (50) | **(99)** | (49) | (30) |
| Other | 6 | **8** | 2 | (20) |
| Retained income of funds and agencies [a] | (223) | **(123)** | 100 | 376 |
| **Total other cash adjustments** | (902) | **(710)** | 192 | 448 |
| **Total cash adjustments** | (1,749) | **(723)** | 1,026 | 1,410 |

[a] Due primarily to the retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds.

## 2009–10 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

*(millions of dollars)*

| | Sensitivities | $ millions | Assumptions | | |
|---|---|---|---|---|---|
| | 2009-10 | | | | |
| | Annual Change | Net Change | Budget | 1st Quarter Forecast | 2nd Quarter Forecast |
| Oil Price WTI (US$/bbl) | -$1.00 | -143 | 55.50 | 61.00 | **67.51** |
| Natural Gas Price (Cdn$/GJ) | -10 cents | -126 | 5.50 | 3.75 | **3.25** |
| Exchange Rate (US¢/Cdn$) | +1 cent | -221 | 83.50 | 89.40 | **91.00** |
| Interest Rates | +1% | -212 | | | |
| 3-month Canada treasury bills | | | 0.60 | 0.30 | **0.30** |
| 10-year Canada bonds | | | 3.05 | 3.00 | **3.50** |
| Personal Income | -1% | -127 | 2.1% | 2.8% | **2.6%** |
| Corporate Taxable Income | -1% | -16 | -37.3% | -52.2% | **-28.1%** |

[a] Sensitivities based on prices and rates forecast at budget.

| | | | |
|---|---|---|---|
| Alberta Wellhead Oil Price (Cdn$/bbl) | 57.95 | 59.80 | 63.14 |
| Bitumen at Cold Lake (Cdn$/bbl) | 31.60 | 34.16 | 48.22 |

## NET FINANCING REQUIREMENTS[a]

*(millions of dollars)*

| | 2009-10 | | | |
|---|---|---|---|---|
| | | 2nd Quarter Forecast | Change from | |
| | Budget | | from Budget | 1st Quarter |
| **Requirements** | | | | |
| General Revenue Fund term debt maturities | - | - | - | - |
| School construction loan repayments | 44 | **44** | - | - |
| Alberta Social Housing Corporation debt repayment | 24 | **24** | - | - |
| Accumulated debt financing requirements | 68 | **68** | - | - |
| Direct borrowing for capital purposes | 1,100 | **1,391** | 291 | 291 |
| Loan repayment from the pre-1992 TPP to the post-1992 TPP | - | **1,186** | 1,186 | 1,186 |
| Agriculture Financial Services Corporation term borrowing requirements | 75 | **200** | 125 | - |
| Gross financing requirements | 1,243 | **2,845** | 1,602 | 1,477 |
| Cash applied to accumulated debt repayment | (68) | **(68)** | - | - |
| **Net Term Debt Financing Requirements** | 1,175 | **2,777** | 1,602 | 1,477 |
| Term debt financing completed to date | - | **1,524** | 1,524 | 1,424 |

[a] Does not include alternative financing for capital projects (P3s) or financing requirements of Alberta Capital Finance Authority or ATB Financial.

# ACTUAL RESULTS

## FOR THE FIRST SIX MONTHS OF 2009–10

### METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2009*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are included on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

### BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and surplus (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2008-09 figures have been restated where necessary to conform to the 2009-10 presentation.

## CONSOLIDATED FISCAL SUMMARY

*(millions of dollars)*

| | First Six Months | | |
|---|---|---|---|
| | **2009-10** | **2008-09** | **Change** |
| **Revenue** | | | |
| Income taxes | 5,983 | 6,544 | (561) |
| Other taxes | 1,684 | 1,895 | (211) |
| Non-renewable resource revenue | 2,816 | 8,851 | (6,035) |
| Transfers from Government of Canada | 2,154 | 1,708 | 446 |
| Net income from commercial operations | 1,177 | 1,241 | (64) |
| Premiums, fees and licences | 702 | 1,214 | (512) |
| Investment income | 2,275 | 57 | 2,218 |
| Other | 360 | 312 | 48 |
| **Total Revenue** | **17,151** | **21,822** | **(4,671)** |
| **Expense** | | | |
| **Program Expense** | | | |
| Legislative Assembly | 40 | 41 | (1) |
| Aboriginal Relations | 69 | 37 | 32 |
| Advanced Education and Technology | 1,664 | 1,768 | (104) |
| Agriculture and Rural Development | 890 | 825 | 65 |
| Children and Youth Services | 581 | 520 | 61 |
| Culture and Community Spirit | 119 | 162 | (43) |
| Education | 2,958 | 2,635 | 323 |
| Employment and Immigration | 552 | 432 | 120 |
| Energy | 176 | 126 | 50 |
| Environment | 86 | 81 | 5 |
| Executive Council | 13 | 11 | 2 |
| Finance and Enterprise | 419 | 432 | (13) |
| Health and Wellness | 5,924 | 5,594 | 330 |
| Housing and Urban Affairs | 292 | 160 | 132 |
| Infrastructure | 260 | 248 | 12 |
| International and Intergovernmental Relations | 11 | 11 | - |
| Justice | 238 | 223 | 15 |
| Municipal Affairs | 281 | 598 | (317) |
| Seniors and Community Supports | 950 | 858 | 92 |
| Service Alberta | 144 | 136 | 8 |
| Solicitor General and Public Security | 318 | 283 | 35 |
| Sustainable Resource Development | 274 | 283 | (9) |
| Tourism, Parks and Recreation | 85 | 97 | (12) |
| Transportation | 1,155 | 1,164 | (9) |
| Treasury Board | 19 | 18 | 1 |
| **Total Program Expense** | **17,518** | **16,743** | **775** |
| Debt servicing costs | 88 | 108 | (20) |
| **Total Expense** | **17,606** | **16,851** | **755** |
| **Surplus (Deficit)** | **(455)** | **4,971** | **(5,426)** |

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Finance and Enterprise